

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AGRE-00 SP-02 ICA-20 AID-05
EB-08 NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01
CIAE-00 COME-00 FRB-01 INR-10 NSAE-00 XMB-04
OPIC-06 LAB-04 SIL-01 DOE-15 SOE-02 H-02 L-03
PA-02 /141 W

-----026216 190238Z /70

R 180700Z MAY 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6275
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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USMTN ALSO FOR MISSION

USOECN ALSO FOR EMBASSY

PASS TREAS AND FRB

E. O. 11652: N/A

TAGS: EFIN, SZ

SUBJ: SWISS FINANCIAL REVIEW: WEEK OF MAY 7-13

1. SUMMARY: DOLLAR RATE AGAINST SF ROSE IN SLIGHTLY
NERVOUS MARKET; GOLD PRICE ALSO INCREASED. BUNDESBANK
PRES EMMINGER AND FRB GOV WALLICH SPOKE ON EXCHANGE
RATE DEVELOPMENTS. SWISS NATL BANK PARTIALLY RELAXED
RULES ON CAPITAL INFLOWS; END-MAR MONEY SUPPLY WAS UP
16 PCT ON ANNUAL BASIS. LEADING PRIVATE BANK
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AFFILIATED WITH SWISS BANK CORP; TWO OTHER PRIVATE
BANKS MERGED. INTL BOND DEALERS MET IN ZURICH.
FIRESTONE CONFIRMED ITS CLOSURE. UNEMPLOYMENT DECLINED
IN APRIL. END SUMMARY.

2. FOREX AND GOLD:

A) DOLLAR RATE AGAINST SF STABILIZED SLIGHTLY HIGHER AFTER MID-WEEK PROFIT TAKING. DEALERS ATTRIBUTED DOLLAR STRENGTH TO OPEC OIL PRICE FREEZE AND RISING US INTEREST RATES. DM WEKENED SLIGHTLY AGAINST SF. SNB SAID IT WILL COUNTER ABRUPT EXCHANGE RATE READJUSTMENTS. SNB PRE LEUTWILER SAID SNB WOULD RELAX RESTRICTIONS ON CAPITAL INFLOWS IF DOLLAR STABILIZED NEAR SF 2. DEALERS NOTED LEUTWILER SAID LAST DEC DOLLAR SHOULD BE SF 2.10 AND SNB ANNUAL REPORT FOR 1977 SET DOLLAR AT SF 2.25. LEUTWILER EXPECTED SF/DM RATE TO MOVE CLOSER TO PAR.

B) GOLD PRICE ROSE TO \$174 PER OUNCE AND SF 11,000 PER KILO. DEALERS REPORTED RECENT PRICE DECLINE STIMULATED INDUSTRIAL DEMAND AND MIDDLE EAST BUYERS WERE ACTIVE; SAID STRONGER SPOT DEMAND AND COVERING OF SPECULATIVE SHORT POSITIONS BROUGHT PRICE TO 175.50 THURS. DEALERS NOTED PRICE TREND IS ONCE AGAIN INFLUENCED BY ZURICH BECAUSE OF SMALLER TUNOVER ON US MARKET. SNB SAID IT DID NOT BUY GOLD AT LATEST IMF AUCTION. RATES FOLLOW:

ITEM - 5/8(OPEN) - 5/12(CLOSE)

SPOT DOLLAR - 1.9610 - 1.9795

FORWARD DISCOUNSTS

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(PCT PER ANNUM)

1 MONTH - 7.28 - 7.39

2 MONTHS - 6.68 - 6.72

3 MONTHS - 6.68 - 6.70

6 MONTHS - 6.75 - 6.74

12 MONTHS - 6.17 - 6.18

SF/DM - 94.09 - 93.85

GOLD - 171.75 - 174.25

3. WEST GERMANY (FRG): BUNDESBANK PRES EMMINGER TOLD SWISS-GERMAN CHAMBER OF COMMERCE FRG AND US AUTHORITIES ARE MAKING ONLY MINOR FOREX INTERVENTIONS TO MAINTAIN CALM; PRESENT FOREX SALES EXCEED PURCHASES AND US IS REPAYING DM DEBT FROM SWAPS. HOWEVER, EXCHANGE RATES WILL NOT REVERT TO EARLIER 1977 LEVELS. SAID DOLLAR RATE AGAINST DM IS LARGELY DETERMINED BY INTL CONFIDENCE IN DOLLAR; SAW NO PRESENT REPLACEMENT FOR DOLLAR AS RESERVE CURRENCY. URGED HARD CURRENCY COUNTRIES TO COOPERATE BY FOREX INTERVENTIONS, BY SUPPORTING HIGH INTEREST RATE DIFFERENTIAL WITH US. SAID EXPANSION OF EUROPEAN

SNAKE IS NOT FEASIBLE WITH PRESENT INFLATION DIFFERENCES. EMMINGER AGREED WITH NEED FOR FASTER GROWTH WHILE GUARDING AGAINST INFLATION, INCREASED DEMAND AND MORE ATTRACTIVE INVESTMENT TERMS. SAID FRG RECOVERY WILL TAKE TIME.

4. DOLLAR OUTLOOK: PRESS REPORTED FRB GOV WALLICH'S SPEECH BEFORE ST GALLANE MANAGEMENT SYMPOSIUM. STRESSED WALLICH'S GUARDED OPTIMISM THAT INCREASED US CONCERN OVER INFLATION WOULD HELP LONG-TERM, DOLLAR EXCHANGE RATE. NOED HIS EXPLANATION THAT US TRADE DEFICIT REFLECTED FASTER US GROWTH RATE; US OIL IMPORTS WERE RELATIVE PROBLEM BECAUSE US IS LESS DEPENDENT THAN OTHER COUNTRIES ON OIL IMPORTS; UNCLASSIFIED

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AND INFLATION RATE DIFFERENTIAL WAS LESS DRAMATIC IN BALANCE OF PAYMENTS CONTEXT THAN FOR DOLLAR EXCHANGE RATE AGAINST YEN, DM AND SF. PRESS REPORTED HIS COMMENTS THAT US CAPITAL OUTFLOWS COULD NOT BE NEUTRALIZED THROUGH INTERVENTION POLICY; OUTFLOWS WERE OF ADAPTIVE NATURE; DOLLAR EXCHANGE RATE DECLINE MAY HAVE INDUCED SOME OUTFLOW, BUT INTEREST RATE DIFFERENTIALS SHOULD COUNTER EXCHANGE RATE EFFECT AND OFFSET INFLATION RATE DIFFERENTIALS.

5. CAPITAL AND MONEY MARKETS:

A) STOCK PRICES ROSE ABRUPTLY FRI AFTER SNB ANNOUNCED PARTIAL RELAXATION OF CAPITAL INFLOW RESTRICTIONS EFFECTIVE MAY 16. SKA SHARE INDEX ROSE 1.5 PCT TO 244.3; BEARER SHARES REGISTERED GREATEST PRICE INCREASE. NEW SNB RULE: FOREIGNERS MAY SWITCH INVESTMENTS BETWEEN SWISS SECURITIES LISTED ON STOCK EXCHANGES, BUT NOT BONDS, PROVIDING BUY AND SELL ORDERS ARE PLACED SIMULTANEOUSLY; FOREIGN HOLDERS OF BANK BONDS MAY BUY NEW PAPER WHEN THEIR NOTES MATURE; FOREIGNERS MAY EXERCISE SUBSCRIPTION RIGHTS TO NEW STOCK ISSUES IF THEY HOLD SUFFICIENT PAPER TO QUALIFY FOR AT LEAST 50 PCT OF REQUIREMENT TO EXERCISE OPTION. SNB GEN MGR LANGUETIN SAID CAPITAL INFLOW RESTRICTIONS WOULD BE LIFTED WHEN SNB FEELS CONFIDENT PRESENT EXCHANGE RATE STABILITY WILL CONTINUE.

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B) END MAR MONEY SUPPLY (M1) WAS UP 16 PCT
COMPARED END MAR 1977. SNB PLANS TO REDUCE
LIQUIDITY GRADUALLY. AVERAGE YIELD CONFEDERATION
BONDS EDGED UPWARD TO 3.42. NEW BOND ISSUES WERE
ANNOUNCED AT INTEREST RATES RANGING FROM 3.25 TO 4.5
PCT; ISSUE PRICES RANGED FROM 99.25 PCT OF PAR FOR
LOWER INTEREST RATES OVER 15 YEARS TO 101 PCT FOR
BANCA DEL GOTTARDO 8 YEAR BORROWING AT 4 PCT INTEREST.

6. BANKING:

A) FERRIER, LULLIN & CO, LEADING PRIVATE GENEVA
BANK, ANNOUNCED AFFILIATION EFFECTIVE JULY 1 WITH
SWISS BANK CORP WHICH WILL HOLD 60 PCT OF SF 30
MILLION CAPITAL IN NEW VENTURE. FL WILL CONTINUE
OPERATING AS PRIVATE BANK, NOT AS SBC BRANCH.
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COMMUNIQUE ATTRIBUTED AFFILIATION TO NEED FOR
GREATER FINANCIAL CAPACITY TO PROVIDE SECURITY FOR
INCREASED BUSINESS. SOME OBSERVERS SAID AFFILIATION
INDICATED FUTURE TREND FOR OLD PRIVATE BANKS; OTHERS
BELIEVED IT REPRESENTED ONLY ONE OF SEVERAL POSSIBLE

ALTERNATIVES. AGEFI EDITORIAL SAID MOVE HIGHLIGHTED IMPORTANCE OF BIG BANKS IN SOLVING PROBLEMS OF SWISS ECONOMY.

B) ASSN OF INTL BOARD OF BOND DEALERS (AIBD) MET IN ZURICH. HANS BAER (BANK JULIUS BAER) URGED PRIVATE BANKS TO DIVERSIFY ACTIVITIES FROM SPECIALIZATION IN INVESTMENT PORTFOLIO MANAGEMENT TO IMPROVE EARNINGS AND MINIMIZE LOSS POTENTIAL. BAER SAID INCREASED REGULATION IS INEVITABLE AND WILL CAUSE SWISS BANKS TO SHIFT THEIR ACTIVITIES ABROAD. GUT (CREDIT SUISSE) STRESSED STRONG POSITION OF BIGGEST SWISS BANKS ON EUROMARKET BUT EXPECTED INCREASED FUTURE COMPETITION, PARTICULARLY FROM US BANKS. ERIK GASSER (ASSN OF FOREIGN BANKS IN SWITZERLAND) SPOKE OF DECREASING IMPORTANCE OF FOREIGN BANKS IN SWITZERLAND AND DECREASED IMPORTANCE OF SWISS MARKET, STRESSED HIGHER CAPITALIZATION REQUIREMENTS FOR NEW BANK OPENINGS, SNB MEASURES TO CONTROL SF EXCHANGE RATE AND DIFFICULTY FOR FOREIGNERS TO OBTAIN RESIDENCE PERMITS. ALFRED SARASIN (SWISS BANKERS' ASSN) SPOKE ABOUT PROBLEMS CAUSED DEALERS BY INTRODUCING EUREX-SYSTEM TO AUTOMATE WORLD TRADE IN EUROBONDS.

C) MISCELLANEOUS: SARASIN (BASEL) AND VLANKART (ZURICH) PRIVATE BANKERS ANNOUNCED MERGER EFFECTIVE JULY 1 TO EXPAND OPERATIONS IN ZURICH AND ABROAD.
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CREDIT SUISSE BOUGHT 31 PCT OF CREDIT SUISSE WHITE WELD HELD BY MERRILL LYNCH. LIQUIDATORS OF BANK LE CLERC, GENEVA, WHICH CLOSED LAST YEAR, ANNOUNCED CREDITORS WILL RECEIVE 9 PCT OF THEIR INVESTMENTS. FOUR LARGEST BANKS WERE REPORTEDLY MAKING PROGRESS ON NEGOTIATING NEW AGREEMENT TO LIMIT NUMBER OF NEW BRANCHES THEY MAY OPEN OVER NEXT FEW YEARS.

7. INDUSTRY: FIRESTONE CONFIRMED ITS INTENTION TO CLOSE PRATTELIN TIRE PLANT IN JULY; SAID SWISS PROPOSALS TO MAINTAIN PRODUCTION BY REDUCING LABOR COSTS AND BOOSTING DOMESTIC SALES WERE INSUFFICIENT TO OFFSET LOSSES. LABOR UNIONS REACTED WITH STRONG CRITICISM; SAID FORESTONE MANAGEMENT VIOLATED OECD CODE OF INTERNATIONAL CORPORATE CONDUCT. SEVERAL EDITORIALS CRITICIZED GOVT EFFORTS TO PERSUADE FORESTONE REVERSE CLOSURE DECISION AS INTERFERENCE IN MARKET ECONOMY; EVEN SOME FORESTONE EMPLOYEES EXPRESSED OPPOSITION TO GOVT INTERVENTION. FED COUNCIL EXPRESSED REGRET OVER FIRESTONE DECISION.

8. INDICATORS: LATEST ESTIMATE PUT 1977 SWISS
BALANCE OF PAYMENTS SURPLUS AT SF 8.8 BILLION COMPARED
TO SF 8.7 BILLION IN 1976; SIMILAR SURPLUS IS EXPECTED
IN 1978. END-APR UNEMPLOYMENT RATE WAS 0.3 PCT WITH
10,117 UNEMPLOYED, DOWN 9.5 PCT FROM END-MAR AND 26.6
PCT BELOW END-APR 1977. CONSUMER PROCE INDEX ROSE
0.2 PCT IN APR; END-APR CPI WAS 1.4 PCT ABOVE END-APR
1977; INCREASE WAS LARGELY DUE TO HIGHER FOOD AND
TRANSPORTATION COSTS. WHOLESALE PRICE INDEX FELL
0.1 PCT IN APR. DOWN 3.7 PCT ON ANNUAL BASIS. WARNER

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